

AUDITING PROCEDURES REPORT

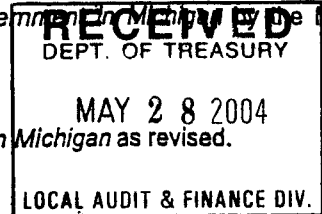
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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Kent City	County Kent
Audit Date February 29, 04	Opinion Date May 4, 2004	Date Accountant Report Submitted to State: May 27, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) CALVIN MEEUSEN COMPANY, C.P.A., PLLC			
Street Address 1914 S BEACON BLVD.	City GRAND HAVEN	State MT	ZIP 49417
Accountant Signature <i>Calvin Meeusen</i> C.A. - Member			

AUDITOR'S REPORT
VILLAGE OF KENT CITY, MICHIGAN

February 29, 2004

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CALVIN MEEUSEN COMPANY, C.P.A., PLLC

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INDEPENDENT AUDITOR'S REPORT

Village of Kent City
Kent City, Michigan

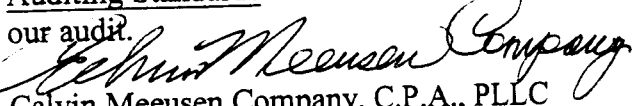
I have audited the accompanying general purpose financial statements of the Village of Kent City, Michigan, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Kent City, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Kent City, as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated May 4, 2004, on my consideration of the Village of Kent City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.


Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
May 4, 2004

Village of Kent City

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

February 29, 2004

	Governmental Fund Types	
	<u>General</u>	<u>Special Revenue</u>
ASSETS		
Cash	\$151,592	\$253,589
Receivables		
Taxes	7,691	-
Accounts	4,089	-
Due from state	-	47,967
Restricted assets - cash	-	-
Property, plant and equipment (Net of accumulated depreciation)	-	-
Total Assets	<u>\$163,372</u>	<u>\$301,556</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 7,808	\$ -
Accrued interest	-	-
Revenue bonds payable	-	-
Total Liabilities	7,808	-
Fund equity:		
Contributions in aid of construction	-	-
Less amortization	-	-
Investment in general fixed assets	-	-
Retained earnings	-	-
Reserve for revenue bond retirement	-	-
Unreserved	-	-
Fund balance		
Undesignated	<u>155,564</u>	<u>301,556</u>
Total Fund Equity	<u>155,564</u>	<u>301,556</u>
Total Liabilities and Fund Equity	<u>\$163,372</u>	<u>\$301,556</u>

The accompanying notes are an integral part of this statement.

Proprietary Fund Type	Account Groups General Fixed Assets	Totals (Memorandum only)
Enterprise (Sewer Fund)		
\$ 148,908	\$ -	\$ 554,089
-	-	7,691
23,841	-	27,930
-	-	47,967
174,942	-	174,942
<u>3,323,006</u>	<u>401,424</u>	<u>3,724,430</u>
<u>\$3,670,697</u>	<u>\$401,424</u>	<u>\$4,537,049</u>
\$ 2,681	\$ -	\$ 10,489
31,791	-	31,791
<u>2,193,000</u>	<u>-</u>	<u>2,193,000</u>
2,227,472	-	2,235,280
1,658,233	-	1,658,233
<u>(939,368)</u>	<u>-</u>	<u>(939,368)</u>
718,865	-	718,865
-	401,424	401,424
174,942	-	174,942
<u>549,418</u>	<u>-</u>	<u>549,418</u>
<u>724,360</u>	<u>-</u>	<u>724,360</u>
<u>-</u>	<u>-</u>	<u>457,120</u>
<u>1,443,225</u>	<u>401,424</u>	<u>2,301,769</u>
<u>\$3,670,697</u>	<u>\$401,424</u>	<u>\$4,537,049</u>

Village of Kent City

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUND TYPES

Year ended February 29, 2004

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special</u>	<u>(Memorandum</u>
		<u>Revenue</u>	<u>Only)</u>
Revenues:			
Taxes	\$127,757	\$ 20,072	\$147,829
Federal grant	-	345,752	345,752
State grants	99,961	75,225	175,186
Interest and rentals	9,422	1,909	11,331
Other revenue	<u>9,575</u>	<u>1,268</u>	<u>10,843</u>
TOTAL REVENUES	246,715	444,226	690,941
Expenditures			
Current:			
Legislative	32,197	-	32,197
General government	48,242	-	48,242
Public safety	39,181	-	39,181
Public works	72,049	342,489	414,538
Other	28,139	-	28,139
Capital outlay	<u>23,036</u>	<u>-</u>	<u>23,036</u>
TOTAL EXPENDITURES	<u>242,844</u>	<u>342,489</u>	<u>585,333</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,871	101,737	105,608
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	3,871	101,737	105,608
Fund balance - March 1	<u>151,693</u>	<u>199,819</u>	<u>351,512</u>
Fund balance - February 29	<u>\$ 155,564</u>	<u>\$301,556</u>	<u>\$457,120</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Year ended February 29, 2004

	General Fund		Variance
	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Taxes	\$131,953	\$127,757	\$ (4,196)
Federal grants	-	-	-
State revenues	99,192	99,961	769
Interest and rentals	5,000	9,422	4,422
Other revenue	<u>6,000</u>	<u>9,575</u>	<u>3,575</u>
TOTAL REVENUES	242,145	246,715	4,570
Expenditures			
Current:			
Legislative	35,800	32,197	3,603
General government	57,675	48,242	9,433
Public safety	58,584	39,181	19,403
Public works	87,073	72,049	15,024
Other	29,242	28,139	1,103
Capital outlay	<u>25,000</u>	<u>23,036</u>	<u>1,964</u>
TOTAL EXPENDITURES	<u>293,374</u>	<u>242,844</u>	<u>50,530</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(51,229)	3,871	55,100
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDI- TURES AND OTHER USES	(51,229)	3,871	55,100
Fund balance - March 1	<u>151,693</u>	<u>151,693</u>	<u>-</u>
Fund balance - February 29	<u>\$100,464</u>	<u>\$155,564</u>	<u>\$ 55,100</u>

The accompanying notes are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Totals (Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 16,500	\$ 20,072	\$ 3,572	\$148,453	\$147,829	\$ (624)
-	345,752	345,752	-	345,752	345,752
71,000	75,225	4,225	170,192	175,186	4,994
2,200	1,909	(291)	7,200	11,331	4,131
-	<u>1,268</u>	<u>1,268</u>	<u>6,000</u>	<u>10,843</u>	<u>4,843</u>
89,700	444,226	354,526	331,845	690,941	359,096
-	-	-	35,800	32,197	3,603
-	-	-	57,675	48,242	9,433
-	-	-	58,584	39,181	19,403
281,921	342,489	(60,568)	368,994	414,538	(45,544)
-	-	-	29,242	28,139	1,103
-	-	-	<u>25,000</u>	<u>23,036</u>	<u>1,964</u>
<u>281,921</u>	<u>342,489</u>	<u>(60,568)</u>	<u>575,295</u>	<u>585,333</u>	<u>(10,038)</u>
(192,221)	101,737	293,958	(243,450)	105,608	349,058
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(192,221)	101,737	293,958	(243,450)	105,608	349,058
<u>199,819</u>	<u>199,819</u>	-	<u>351,512</u>	<u>351,512</u>	-
\$ <u>7,598</u>	\$ <u>301,556</u>	\$ <u>293,958</u>	\$ <u>108,062</u>	\$ <u>457,120</u>	\$ <u>349,058</u>

Village of Kent City

STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN RETAINED EARNINGS

PROPRIETARY FUND TYPE
(Sewer Fund)

Years ended February 29 and 28

	<u>2004</u>	<u>2003</u>
Operating revenues		
Sewer service charges	<u>\$241,950</u>	<u>\$254,986</u>
	241,950	254,986
Operating expenses		
Salaries and wages	11,378	10,802
Postage	1,864	838
Repairs and maintenance	10,328	8,710
Utilities	6,791	8,214
Professional services	53,830	34,882
Depreciation	121,010	117,532
Insurance	4,471	4,243
Miscellaneous	819	788
	<u>210,491</u>	<u>186,009</u>
Operating income	31,459	68,977
Other income and (expenses)		
Interest revenue	3,659	4,791
Interest expense and fiscal charges	(76,437)	(78,089)
User charges for lateral replacements	<u>18,000</u>	<u>-</u>
	<u>(54,778)</u>	<u>(73,298)</u>
NET INCOME (LOSS)	(23,319)	(4,321)
Add depreciation on fixed assets		
acquired by grants and other revenues		
externally restricted for construction	<u>40,766</u>	<u>40,765</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	17,447	36,444
Retained earnings - March 1	<u>706,913</u>	<u>670,469</u>
Retained earnings - February 29	<u>\$724,360</u>	<u>\$706,913</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
(Sewer Fund)

Years ended February 29 and 28

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Net income (loss)	\$ (23,319)	\$ (4,321)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	121,010	117,532
Changes in assets and liabilities		
Accounts receivable	(2,862)	10,096
Accounts payable	556	1,879
Accrued interest	(704)	(665)
Total adjustments	<u>118,000</u>	<u>128,842</u>
Net cash provided (used) by operating activities	94,681	124,521
Cash flows from investing activities:		
Purchase of fixed assets	<u>(33,152)</u>	<u>(9,750)</u>
Net cash used by investing activities	(33,152)	(9,750)
Cash flows from financing activities:		
Retirement of long-term debt	<u>(65,000)</u>	<u>(63,000)</u>
Net cash provided (used) by financing activities	<u>(65,000)</u>	<u>(63,000)</u>
NET INCREASE (DECREASE) IN CASH	(3,471)	51,771
Cash at beginning of year	<u>327,321</u>	<u>275,550</u>
Cash at end of year	<u>\$323,850</u>	<u>\$327,321</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS

February 29, 2004

The Village of Kent City (Kent County) is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks and recreation, planning and zoning and general administrative services.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Kent City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. Reporting Entity

The Village has adopted the position of the National Council of Governmental Accounting (NCGA) as outlined in its Statement 3 regarding the definition of the "reporting entity". The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's general purpose financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all governmental activities, organizations, boards and commissions subject to the Village of Kent City jurisdiction; there are no other activities, organizations, boards or commissions that are not included in this report.

2. Fund Accounting

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in this report, as follows:

GOVERNMENTAL FUND TYPES

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Fund Accounting - Continued

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

PROPRIETARY FUND TYPES

Enterprise Fund - The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Fixed Assets and Long-Term Liabilities - Continued

The account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	15 - 20 years
Machinery and equipment	5 - 10 years
Office equipment	10 years
Improvements other than building (sewer system)	15 - 50 years

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - Continued

The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The proprietary fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred. For purposes of the statement of cash flows, the Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

5. Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about December 1, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to March 1, the budget is legally enacted through passage of a resolution.
- d. The Village Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- e. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for the General Fund lapse at the end of the fiscal year.

Budgeted amounts are as originally adopted, or as amended by the Village Council as of February 29, 2004.

6. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property and are levied on July 1 and are payable through October 1. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Revenue Recognition - Property Taxes - Continued

Collections of these taxes are accounted for in the General Fund. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 12.50 mills per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited millage for the payment of principal and interest on long-term debt subject to a vote of the Village residents. The combined tax rate to finance general government services and payment of principal and interest on long-term debt for the year ended February 29, 2004 was 8.00 mills.

7. Compensated Absences

Village employees earn vacation and sick leave in varying amounts based on length of service. Unused sick leave or vacation pay does not accumulate past February 29 or 28 of each fiscal year. No portion of unused sick leave or vacation pay is paid to employees at the time of termination or retirement. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

8. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village.

9. Cash and Cash Equivalents

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

11. Amortization of Contributed capital

The contributed capital accounts of the enterprise funds are amortized over the estimated useful lives of the fixed assets acquired with such capital.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Risk Management

The Village of Kent City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Local Unit Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Local Unit Self-Insurance Pool (Pool) pursuant to the provisions of Act 138 of the Michigan Public Acts of 1982. The Pool is to provide for joint and cooperative action relative to Members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state. The Village of Kent City became a member of the pool in 1990.

13. Total columns on Combined Statements

Total columns on the combined statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B - DEPOSITS

All deposits are in several financial institutions and are carried at cost; the deposits are composed of checking accounts and savings accounts.

At February 29, 2004, the carrying amount of the Village's deposits was \$729,031. Of the bank balance, \$300,000 was covered by federal depository insurance, the remainder being uninsured.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE B - DEPOSITS - CONTINUED

<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
\$ 28,519	\$ 46,574	General
123,073	106,312	General
25,747	28,905	Common account - Major and Local Streets
156,116	149,971	Common account - Major and Local Streets
15,714	5,310	Sewer
148,908	163,908	Sewer
(9,083)	(9,083)	Sewer
12,000	12,000	Sewer
114,311	114,311	Sewer
42,000	42,000	Sewer
100	100	Downtown Development Authority
<u>71,626</u>	<u>71,569</u>	Downtown Development Authority
<u>\$729,031</u>	<u>\$731,877</u>	

The cash equity of each fund in common bank accounts at February 29, 2004, is as follows:

<u>Fund</u>	<u>Cash equity in Common account</u>
Major street	\$ 120,603
Local street	<u>61,260</u>
	<u>\$ 181,863</u>

NOTE C - INTERFUND RECEIVABLES AND PAYABLES

Details of interfund receivables and payables at February 29, 2004, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
	\$ <u>-</u>		\$ <u>-</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE D - PROPERTY, PLANT AND EQUIPMENT

The components of fixed assets at February 29, 2004, are summarized as follows:

	Enterprise	General Fixed Assets Account Group	Totals
Land	\$ 167,115	\$ 67,803	\$ 234,918
Buildings	20,263	120,593	140,856
Machinery and equipment	78,191	160,287	238,478
Land improvements	4,569,847	40,057	4,609,904
Office equipment	<u>2,661</u>	<u>12,684</u>	<u>15,345</u>
	4,838,077	401,424	5,239,501
Less allowance for accumulated depreciation	<u>1,515,071</u>	<u>-</u>	<u>1,515,071</u>
	<u>\$3,323,006</u>	<u>\$401,424</u>	<u>\$3,724,430</u>

A summary of changes in general fixed assets follows:

	Balance March 1 2003	Addi- tions	Dele- tions	Balance Feb. 29 2004
Building	\$136,296	\$ 4,259	\$19,962	\$ 120,593
Office equipment	24,226	2,180	13,722	12,684
Machinery and equipment	197,834	3,180	40,727	160,287
Land properties and improvements	<u>88,931</u>	<u>24,410</u>	<u>5,481</u>	<u>107,860</u>
	<u>\$447,287</u>	<u>\$34,029</u>	<u>\$79,892</u>	<u>\$ 401,424</u>

NOTE E - DEBT

The following is a summary of long-term debt transactions of the Village for the year ended February 29, 2004:

	Total Revenue
Bonds payable at March 1, 2003	\$2,258,000
Bonds retired	<u>(65,000)</u>
Bonds payable at February 29, 2004	<u>\$2,193,000</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE E - DEBT - CONTINUED

Long-term debt at February 29, 2004, is comprised of the following individual issues:

Revenue bonds

Sewer revenue and revenue refunding bonds due in annual installments of \$10,000 to \$70,000, plus interest at 4.5% through April 1, 2038	1,198,000
---	-----------

Sewer revenue bonds (limited tax general obligation) due in annual installments of \$55,000 to \$80,000 plus interest at 2.25% through April 1, 2018	<u>995,000</u>
--	----------------

\$2,193,000

The sewer revenue and revenue refunding bonds are being issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system.

The sewer revenue bonds (LTGO) are being issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system and refunding the Sewer System Junior Lien Revenue Bonds, Series II dated July 23, 1980.

The annual requirements to pay principal and interest on long-term debt outstanding at February 29, 2004, are as follows:

Fiscal year ending <u>February 29</u>	Revenue <u>Bonds</u>
2005	141,298
2006	144,610
2007	142,810
2008	143,010
2009	141,120
2010-2014	711,856
2015-2019	709,250
2020-2024	371,500
2025-2029	390,550
2030-2034	395,650

Village of Kent City

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 29, 2004

NOTE E - DEBT - CONTINUED

<u>Fiscal year ending</u> <u>February 29</u>	<u>Revenue</u> <u>Bonds</u>
2035-2039	<u>386,800</u>
	<u>\$3,678,454</u>

NOTE F - RESTRICTED ASSETS

Cash in the enterprise fund is restricted under a bond ordinance associated with the Series 1998B bonds. Amounts have been restricted for the following purposes at February 29, 2004:

Operations and maintenance	\$ 15,714
Bond and interest redemption	114,311
Sewer replacement	(9,083)
Bond reserve	42,000
Sludge reserve	<u>12,000</u>
	<u>\$174,942</u>

NOTE G - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures have been reported on a functional basis. This is the same basis for which the budgets have been legally adopted and amended.

During the year ended February 29, 2004 the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Major Street Fund Construction	\$ 219,926	\$ 305,801	\$ 85,875

SUPPLEMENTAL INFORMATION

Village of Kent City

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL -DETAILED

GENERAL FUND

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Legislative			
Governing body			
Salaries and wages	\$ 10,000	\$ 8,098	\$ 1,902
Transportation	500	-	500
Professional and contractual	21,000	20,922	78
Community promotion	2,500	2,083	417
Workshops and dues	1,500	926	574
Miscellaneous	300	168	132
	<u>35,800</u>	<u>32,197</u>	<u>3,603</u>
General government			
Elections			
Salaries and wages	500	-	500
Operating supplies	500	170	330
Printing and publishing	200	185	15
Miscellaneous	100	-	100
	<u>1,300</u>	<u>355</u>	<u>945</u>
Clerk			
Salaries and wages	23,190	20,783	2,407
Office supplies	2,308	1,790	518
Repairs and maintenance	1,260	858	402
Professional and contractual	7,010	5,708	1,302
Transportation	400	82	318
Printing and publishing	2,315	2,214	101
Utilities	3,061	2,380	681
Workshops and dues	300	159	141
Miscellaneous	300	79	221
	<u>40,144</u>	<u>34,053</u>	<u>6,091</u>
Treasurer			
Salaries and wages	8,280	8,280	-
Office supplies	1,319	1,023	296
Repairs and maintenance	720	491	229
Professional and contractual	2,658	2,030	628
Transportation	400	254	146
Printing and publishing	500	259	241
Utilities	1,754	1,356	398
Workshops and dues	500	110	390
Miscellaneous	100	31	69
	<u>16,231</u>	<u>13,834</u>	<u>2,397</u>
Total general government	\$ 57,675	\$ 48,242	\$ 9,433

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - DETAILED - CONTINUED
GENERAL FUND

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Public safety			
Professional and contractual	6,250	3,869	2,381
Utilities	<u>435</u>	<u>435</u>	<u>-</u>
	6,685	4,304	2,381
Zoning administrator			
Salaries and wages	22,256	21,720	536
Office supplies	1,868	1,449	419
Repairs and maintenance	1,020	695	325
Professional and contractual	1,640	756	884
Utilities	2,485	1,922	563
Transportation	200	-	200
Printing and publishing	200	108	92
Workshops	500	20	480
Miscellaneous	<u>100</u>	<u>21</u>	<u>79</u>
	30,269	26,691	3,578
Planning commission and board of appeals			
Salaries and wages	4,530	3,440	1,090
Professional and contractual	15,000	4,019	10,981
Printing and publishing	1,500	551	949
Workshops	500	138	362
Miscellaneous	<u>100</u>	<u>38</u>	<u>62</u>
	21,630	8,186	13,444
Total public safety	58,584	39,181	19,403
Public works			
Department of public works			
Salaries and wages	22,000	20,919	1,081
Operating supplies	1,000	800	200
Gasoline	4,015	4,013	2
Repairs and maintenance	14,000	10,619	3,381
Outside services	30,000	22,424	7,576
Utilities	2,980	2,108	872
Workshops	500	114	386
Miscellaneous	<u>578</u>	<u>515</u>	<u>63</u>
	75,073	61,512	13,561
Street lighting			
Public utilities	<u>12,000</u>	<u>10,537</u>	<u>1,463</u>
Total public works	87,073	72,049	15,024

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - DETAILED - CONTINUED

GENERAL FUND

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Other			
Insurance and bonds	10,000	8,930	1,070
Health insurance	10,445	10,445	-
Retirement contribution	1,177	1,139	38
FICA	<u>7,620</u>	<u>7,625</u>	<u>(5)</u>
	29,242	28,139	1,103
Capital outlay			
General	<u>25,000</u>	<u>23,036</u>	<u>1,964</u>
TOTAL EXPENDITURES	<u>\$293,374</u>	<u>\$242,844</u>	<u>\$ 50,530</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS

February 29, 2004

	<u>Major Street</u>	<u>Local Street</u>
ASSETS		
Cash	\$120,603	\$ 61,261
Due from State of Michigan	46,390	1,577
Due from other funds	<u>-</u>	<u>-</u>
	<u>\$166,993</u>	<u>\$ 62,838</u>
LIABILITIES AND FUND BALANCE		
Fund balances:		
Undesignated	<u>166,993</u>	<u>62,838</u>
	<u>\$166,993</u>	<u>\$ 62,838</u>

The accompanying notes are an integral part of this statement.

Downtown
Development
Authority

Totals

\$ 71,725

\$253,589

-

47,967

-

-

\$ 71,725

\$301,556

\$ 71,725

\$301,556

\$ 71,725

\$301,556

Village of Kent City

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS

Year ended February 29, 2004

	Major <u>Street</u>	Local <u>Street</u>
Revenues		
Taxes	\$ -	\$ -
Federal grant	345,752	-
State grants	60,126	15,099
Interest earnings	941	627
Other revenue	<u>958</u>	<u>310</u>
TOTAL REVENUES	407,777	16,036
Expenditures		
Highways, streets and bridges	324,995	16,017
Administration, engineering and recordkeeping	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>324,995</u>	<u>16,017</u>
EXCESS OF REVENUES OVER EXPENDITURES	82,782	19
Other financing sources (uses)		
Operating transfers in	-	-
Operating transfers out	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	82,782	19
Fund balance - March 1	<u>84,211</u>	<u>62,819</u>
Fund balance - February 29	<u>\$166,993</u>	<u>\$ 62,838</u>

The accompanying notes are an integral part of this statement.

Downtown
Development
Authority

Totals

\$ 20,072	\$ 20,072
-	345,752
-	75,225
341	1,909
<u>-</u>	<u>1,268</u>
20,413	444,226
-	341,012
<u>1,477</u>	<u>1,477</u>
<u>1,477</u>	<u>342,489</u>
18,936	101,737
-	-
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
18,936	101,737
<u>52,789</u>	<u>199,819</u>
<u>\$ 71,725</u>	<u>\$301,556</u>

Village of Kent City

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - MAJOR STREET FUND

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental revenue			
Federal grant	\$ -	\$345,752	\$345,752
State shared revenue			
Gas and weight tax	57,000	60,126	3,126
Interest earnings	1,400	941	(459)
Other revenue	<u>-</u>	<u>958</u>	<u>958</u>
TOTAL REVENUES	58,400	407,777	349,377
Expenditures			
Construction	219,926	305,801	(85,875)
Routine maintenance			
Salaries and wages	3,235	3,233	2
Repairs and maintenance	6,000	892	5,108
Contracted services	13,500	6,505	6,995
Rentals	<u>5,000</u>	<u>4,771</u>	<u>229</u>
	27,735	15,401	12,334
Winter maintenance			
Salaries and wages	4,000	961	3,039
Repairs and maintenance	<u>3,500</u>	<u>1,869</u>	<u>1,631</u>
	7,500	2,830	4,670
Administration, engineering and recordkeeping			
Professional services	<u>963</u>	<u>963</u>	<u>-</u>
TOTAL EXPENDITURES	<u>256,124</u>	<u>324,995</u>	<u>(68,871)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(197,724)	82,782	280,506
Other financing uses			
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES (197,724)		82,782	280,506
Fund balance - March 1	<u>84,211</u>	<u>84,211</u>	<u>-</u>
Fund balance - February 29	<u>\$(113,513)</u>	<u>\$166,993</u>	<u>\$280,506</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - LOCAL STREET FUND

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental revenue			
State shared revenue			
Gas and weight tax	\$14,000	\$ 15,099	\$ 1,099
Interest earnings	800	627	(173)
Other revenue	-	310	310
TOTAL REVENUES	<u>14,800</u>	<u>16,036</u>	<u>1,236</u>
Expenditures			
Construction	-	-	-
Routine maintenance			
Salaries and wages	3,500	1,812	1,688
Repairs and maintenance	6,000	353	5,647
Outside services	7,575	7,575	-
Rentals	<u>2,775</u>	<u>3,186</u>	<u>(411)</u>
	<u>19,850</u>	<u>12,926</u>	<u>6,924</u>
Winter maintenance			
Salaries and wages	1,600	1,080	520
Repairs and maintenance	<u>2,000</u>	<u>1,246</u>	<u>754</u>
	<u>3,600</u>	<u>2,326</u>	<u>1,274</u>
Administration, engineering and recordkeeping			
Professional services	<u>765</u>	<u>765</u>	<u>-</u>
TOTAL EXPENDITURES	<u>24,215</u>	<u>16,017</u>	<u>8,198</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(9,415)	19	9,434
Other financing sources			
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(9,415)	19	9,434
Fund balance - March 1	<u>62,819</u>	<u>62,819</u>	<u>-</u>
Fund balance - February 29	<u>\$ 53,404</u>	<u>\$ 62,838</u>	<u>\$ 9,434</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - DOWNTOWN DEVELOPMENT AUTHORITY

Year ended February 29, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 16,500	\$ 20,072	\$ 3,572
Interest	<u>-</u>	<u>341</u>	<u>341</u>
TOTAL REVENUES	16,500	20,413	3,913
Expenditures			
Administration, engineering and recordkeeping			
Salaries and wages	150	150	-
Office supplies	50	23	27
Professional services	1,222	1,222	-
Publication	60	60	-
Miscellaneous	<u>100</u>	<u>22</u>	<u>78</u>
TOTAL EXPENDITURES	<u>1,582</u>	<u>1,477</u>	<u>105</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	14,918	18,936	4,018
Other financing uses			
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	14,918	18,936	4,018
Fund balance - March 1	<u>52,789</u>	<u>52,789</u>	<u>-</u>
Fund balance - February 29	\$ <u>67,707</u>	\$ <u>71,725</u>	\$ <u>4,018</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

BALANCE SHEET
PROPRIETARY FUND TYPE
(Sewer Fund)
February 29 and 28

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 148,908	\$ 156,712
Accounts receivable	<u>23,841</u>	<u>20,979</u>
	172,749	177,691
RESTRICTED ASSETS - CASH	174,942	170,609
PROPERTY, PLANT & EQUIPMENT		
Land	167,115	167,115
Sewage disposal system	4,569,847	4,569,847
Buildings	20,263	20,263
Machinery and equipment	78,191	45,039
Office equipment	<u>2,661</u>	<u>2,661</u>
	4,838,077	4,804,925
Less accumulated depreciation	<u>1,515,071</u>	<u>1,394,061</u>
	<u>3,323,006</u>	<u>3,410,864</u>
	<u>\$3,670,697</u>	<u>\$3,759,164</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 65,000	\$ 65,000
Accounts payable	2,681	2,125
Accrued interest	<u>31,791</u>	<u>32,495</u>
	99,472	99,620
LONG-TERM DEBT	2,128,000	2,193,000
FUND EQUITY		
Contributed capital	1,658,233	1,658,233
Less amortization	<u>(939,368)</u>	<u>(898,602)</u>
	718,865	759,631
Retained earnings		
Reserved	174,942	170,609
Unreserved	<u>549,418</u>	<u>536,304</u>
	<u>724,360</u>	<u>706,913</u>
	<u>1,443,225</u>	<u>1,466,544</u>
	<u>\$3,670,697</u>	<u>\$3,759,164</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

SCHEDULE OF INDEBTEDNESS

February 29, 2004

Enterprise fund

Sewer Revenue Bonds (LTGO), Series 1998A, issued June 25, 1998

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2003</u>	<u>2004</u>	<u>Annual interest payable</u>
\$1,260,000	2.25%	4/1/03	55,000	-	-
		4/1/04	55,000	55,000	22,388
		4/1/05	60,000	60,000	21,150
		4/1/06	60,000	60,000	19,800
		4/1/07	60,000	60,000	18,450
		4/1/08	60,000	60,000	17,100
		4/1/09	65,000	65,000	15,750
		4/1/10	65,000	65,000	14,288
		4/1/11	65,000	65,000	12,826
		4/1/12	65,000	65,000	11,362
		4/1/13	70,000	70,000	9,900
		4/1/14	70,000	70,000	8,326
		4/1/15	70,000	70,000	6,750
		4/1/16	75,000	75,000	5,176
		4/1/17	75,000	75,000	3,488
		4/1/18	<u>80,000</u>	<u>80,000</u>	<u>1,800</u>
			1,050,000	995,000	188,554

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998

\$1,240,000	4.5%	4/1/03	10,000	-	-
		4/1/04	10,000	10,000	53,910
		4/1/05	10,000	10,000	53,460
		4/1/06	10,000	10,000	53,010
		4/1/07	12,000	12,000	52,560
		4/1/08	12,000	12,000	52,020
		4/1/09	12,000	12,000	51,480
		4/1/10	12,000	12,000	50,940
		4/1/11	14,000	14,000	50,400

The accompanying notes are an integral part of this statement.

Village of Kent City

SCHEDULE OF INDEBTEDNESS - CONTINUED

February 29, 2004

Enterprise fund - Continued

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998-Continued

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2003</u>	<u>2004</u>	<u>Annual interest payable</u>
\$1,240,000	4.5%	4/1/12	14,000	14,000	49,770
		4/1/13	14,000	14,000	49,140
		4/1/14	14,000	14,000	48,510
		4/1/15	16,000	16,000	47,880
		4/1/16	16,000	16,000	47,160
		4/1/17	16,000	16,000	46,440
		4/1/18	16,000	16,000	45,720
		4/1/19	30,000	30,000	45,000
		4/1/20	30,000	30,000	43,650
		4/1/21	30,000	30,000	42,300
		4/1/22	30,000	30,000	40,950
		4/1/23	40,000	40,000	39,600
		4/1/24	40,000	40,000	37,800
		4/1/25	40,000	40,000	36,000
		4/1/26	40,000	40,000	34,200
		4/1/27	50,000	50,000	32,400
		4/1/28	50,000	50,000	30,150
		4/1/29	50,000	50,000	27,900
		4/1/30	50,000	50,000	25,650
		4/1/31	60,000	60,000	23,400
		4/1/32	60,000	60,000	20,700
		4/1/33	60,000	60,000	18,000
		4/1/34	60,000	60,000	15,300
		4/1/35	70,000	70,000	12,600
		4/1/36	70,000	70,000	9,450
		4/1/37	70,000	70,000	6,300
		4/1/38	<u>70,000</u>	<u>70,000</u>	<u>3,150</u>
			<u>1,208,000</u>	<u>1,198,000</u>	<u>1,296,900</u>
			<u>\$2,258,000</u>	<u>\$2,193,000</u>	<u>\$1,485,454</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Village Council
Village of Kent City, Michigan

1. I have audited the general purpose financial statements of the Village of Kent City as of and for the year ended February 29, 2004, and have issued my report thereon dated May 4, 2004. I conducted my audit in accordance with generally accepted government auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

2. As part of obtaining reasonable assurance about whether the Village of Kent City's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

3. In planning and performing my audit, I considered the Village of Kent City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Kent City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings as item 01-1.
4. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

5. This report is intended for the information of management, the Village Council and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Calvin Meeusen Company C.P.A. PLLC

Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
May 4, 2004

Village of Kent City
SCHEDULE OF FINDINGS
Year ended February 29, 2004

FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

01-1 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only one person. The Village of Kent City has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation. This has been done in the past and will continue in the future.

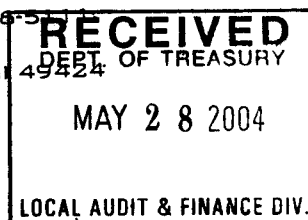
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May 4, 2004



Honorable Village Council
Village of Kent City
Kent County, Michigan

In connection with my examination of the financial statements as of February 29, 2004, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Kent City for the year ended February 29, 2004, and have issued my report thereon dated May 4, 2004. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Kent City to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Kent City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls are not adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Kent City may occur and not be detected within a timely period. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

Honorable Village Council
Village of Kent City

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A budget is required by the State Constitution and by the State of Statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any transfer of monies between funds, except those authorized by statute, should be held to an absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

Effective March 1, 2004 the Village of Kent City will be subject to GASB 34 as a phase three municipality for the year ending February 28, 2005. I would recommend the Village would adopt a minimum capitalization policy retroactive to March 1, 2004 of \$2,000 to \$2,500. We will be working with the Village staff throughout the coming year on implementing GASB 34.

I wish to commend the management of the Village of Kent City for the excellent return on surplus funds they have been able to realize. As of February 29, 2004, only \$300,000 of approximately \$732,000 was federally insured. I strongly recommend that the Village maintain accounts at as many federally insured financial institutions as practical to maximize FDIC coverage. Though the Village may forego a small amount of interest, the benefits of maximizing FDIC coverage are normally worth the cost.

In conclusion, I wish to state that all of the comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss the above comments and recommendations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Calvin D. Meeusen", followed by the printed text "C.P.A.".

Calvin D. Meeusen, C.P.A.